

FISCAL NOTE

Bill #: SB15

Title: Allow infrastructure investment tax credits to be sold at discount

Primary Sponsor: Jeff Mangan

Status: Introduced

Sponsor signature

Date

David Ewer, Budget Director

Date

Fiscal Summary

	<u>FY 2006 Difference</u>	<u>FY 2007 Difference</u>
Expenditures:		
General Fund		
State Special Revenue		
Federal Special Revenue		
Other		
Revenue:		
General Fund	\$(250,000)	\$(250,000)
State Special Revenue		
Federal Special Revenue		
Other		
Net Impact on General Fund Balance:	\$(250,000)	\$(250,000)

- | | |
|---|--|
| <input type="checkbox"/> Significant Local Gov. Impact | <input checked="" type="checkbox"/> Technical Concerns |
| <input type="checkbox"/> Included in the Executive Budget | <input type="checkbox"/> Significant Long-Term Impacts |
| <input type="checkbox"/> Dedicated Revenue Form Attached | <input type="checkbox"/> Needs to be included in HB 2 |

Fiscal Analysis

ASSUMPTIONS:

1. Under current law, local governments receiving loans pursuant to 17-6-309(2) to build certain infrastructure may charge businesses a fee for the use of that infrastructure. The business may then take a credit against individual income or corporation license taxes for the amount of the fee paid. This credit may be carried forward for 7 years, or backward for 3 years.
2. Over the past several years, the use of this credit for individual income tax purposes has been negligible, with no credit claimed in the past 4 years. The amount of this credit taken for corporation license tax purposes was relatively small in fiscal years 2000 through 2002; however, the total credit claimed for corp tax purposes has grown to \$597,500 in fiscal 2003, and to over \$1 million in fiscal 2004.

3. Under this proposal, a business entitled to the tax credit would be allowed to sell any tax credit earned to another taxpayer at a discounted amount of the value of the tax credit. The purchaser of the credit would be able to use the full amount of the credit (not the discounted value at which the credit was purchased) to offset income tax liabilities. Only those businesses initially entitled to the credit that do not foresee being able to fully use the credit available within the allowable carryback and carryforward time frame, will actually sell these tax credits.
4. A precise estimate of the revenue impact of allowing the credit to be sold requires prior knowledge of how many companies will sell the credit in coming years, how much total credit is available for sale, and the discount at which the credits will be sold. This information is not readily available. However, information exists that allows a reasonable approximation of the revenue impact of this proposal: Under this program a total of about \$12 million has been loaned. To date, payments on these loans total \$6.5 million, with \$3.9 million of this amount paid on the principal of the loan, and the remaining \$2.6 million paid in interest (Board of Investments).
5. The entire amount paid to date of \$6.5 million is assumed to have been paid through fees paid by businesses using the infrastructure for which the loans were acquired. To date, a total of \$2.4 million in tax credits has been used to reduce tax liabilities. This leaves a current balance of \$4.1 million in outstanding credit available that has not been used.
6. Given the recent use of this credit, it is assumed that at least half of the \$4.1 million credit balance available will be used directly by the businesses making fee payments to local governments for use of the infrastructure, and will not be sold at a discount. Of the remaining \$2 million, half will be sold over the first four years following passage of this bill.
7. Therefore, for the purposes of this fiscal note, it is assumed that allowing these credits to be sold will reduce general fund revenues a total of about \$250,000 per year.
8. There are no administrative cost impacts associated with this bill.

FISCAL IMPACT:

	<u>FY 2006 Difference</u>	<u>FY 2007 Difference</u>
<u>Revenues:</u>		
General Fund (01)	\$(250,000)	\$(250,000)
State Special Revenue (02)		
Federal Special Revenue (03)		
Other		
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>		
General Fund (01)	\$(250,000)	\$(250,000)
State Special Revenue (02)		
Federal Special Revenue (03)		
Other		

EFFECT ON COUNTY OR OTHER LOCAL REVENUES OR EXPENDITURES:

None.

LONG-RANGE IMPACTS:

As more local governments avail themselves of the opportunity to build infrastructure, essentially subsidized for the most part by the state general fund, the opportunity for the sale and use of this credit could grow larger in future years.

TECHNICAL NOTES:

1. The bill is silent regarding whether the purchaser of the tax credit also would be allowed to carryforward or carryback the credit; or whether the initial carryforward and carryback provisions and time frame apply to the purchaser, or if a new carryforward and carryback time period is established upon purchase of the credit.
2. It is unclear whether the business that qualifies for the credit can sell a credit amount in advance of paying the user fees that would entitle it to a particular credit amount.
3. The bill specifies that the credits can be sold “at a discounted amount of the value of the tax credit”. This phrase probably is unnecessary. When credits are sellable, they generally sell at a discount.